TARO INDUSTRIES LIMITED

(Formerly Athabasca Columbia Resources Ltd.)

ANNUAL REPORT 1978

TARO INDUSTRIES LIMITED

DIRECTORS AND OFFICERS

W.A. DOW	Chairman	Vancouver
G.D. ROSS	President	Calgary
E.E. McNALLY	Secretary	Calgary
M.D. DOMANKO	Director	Calgary
R.A. WISENER	Director	Calgary
NOAH COHEN	Director	Calgary
J.A. McKEE	Director	Toronto
S.W. ARMSTRONG	Director	Calgary
J.W.W. WILLIAMSON	Director	Calgary

HEAD OFFICE

Suite 1580 Aquitaine Tower,
540 - 5th Avenue S.W.,
Calgary, Alberta T2P 0M3

REGISTRAR AND TRANSFER AGENT

Canada Permanent Trust Company
Calgary and Vancouver

AUDITORS

Touche Ross & Co.
Calgary, Alberta

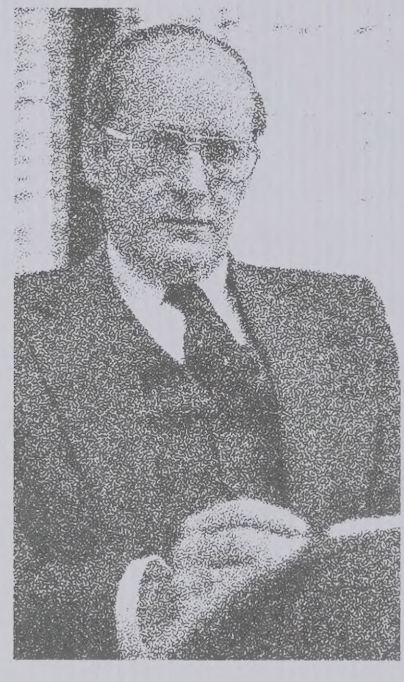
BANKING

Canadian Imperial Bank of Commerce
Calgary, Alberta

STOCK LISTED

Vancouver Stock Exchange
Symbol: TIN

TO THE SHAREHOLDERS



This is the first annual report under our new name and management. The following significant corporate changes have taken place since the last annual report issued in the name of Athabasca Columbia Resources Ltd:

— Taro Oilfield Industries Limited was purchased in July, 1978
— Taro and Athabasca were amalgamated in September, 1978
— The Company's name was changed to Taro Industries Limited
— The Company's year end was changed from the 31st of December to the 30th of September in order to correspond with Taro's fiscal year end
— The Head Office was changed from Vancouver to Calgary
— The Board of Directors was substantially changed.

Fundamentally, it is no longer the same Company. The direction and emphasis of the entire Company was changed.

The Company's financial statements are presented under the basis prescribed by the Canadian Institute of Chartered Accountants. As the purchase by Athabasca of Taro Oilfield Industries Limited was deemed to be a reverse takeover, the statements are required to be presented as if Taro had acquired Athabasca. The earnings of Taro are, therefore, for the nine month period of January through September, while the earnings for Athabasca are for the three month period of July through September. The net result is an earnings statement that is not entirely meaningful as a result of the reverse takeover. The whole statement will change substantially over the next twelve months as the results of a full fiscal year will not be reflected until that time.

The balance sheet is more conventional, except for the capital section as further explained in notes 3 and 7. The net result is a dramatic improvement from the last published balance sheet. Shareholders equity at September 30, 1978 was $3,645,000, a significant increase from the $493,000 on the last Athabasca statement at December 31, 1977. Working capital also improved; to a deficit of $355,000 at the end of the current period compared to a deficit of $1,052,000 on the last published statement.

The reorganization of the Company is now almost complete. We anticipate continued improvement in the balance sheet and in earnings for the new fiscal period, as the statements continue to reflect the complete consolidation of the Taro group of companies that were acquired.

Our objectives for the next fiscal year are twofold: 1) to liquidate those assets that do not contribute to our profits or fit our management-geographical expertise, and 2) to redirect funds or expand into businesses that are of a service or manufacturing nature, insofar as they pertain to the resource industries in Western Canada. Several new opportunities have recently been brought to our attention.

Due to the change in our emphasis and type of operations, it was with regret that we accepted the resignations of several directors: Mr. P.R. Sandwell, Mr. P.M. Barrington, Mr. J.G. Chaston, Mr. J.M. Pryde, and Mr. M.H. Turner. The new directors, all from Calgary, are Mr. R.A. Wisener, Mr. N. Cohen, Mr. J.W.W. Williamson, Mr. M.D. Domanko, and Mr. G.D. Ross.

We look forward to the 1979 fiscal year with a sense of accomplishment and anticipation.

Sincerely,

Graham D. Ross
President and Chief Executive Officer

REVIEW OF PRIOR OPERATIONS

TRUCKING

The trucking operation in Alaska was brought to a final conclusion with the sale and transfer of the operating authorities to a large U.S. based trucking company. The final amounts owing on trucks previously sold to this operation were collected subsequent to year end.

Scandia Trucking, the Canadian trucking company, was reorganized in the early fall. The minority interest not owned by the Company was purchased and some of the older equipment retired. The net result was an addition of two trucks to bring the fleet to twenty heavy oilfield and rig-moving trucks. It is our intention to remain at this size for the present, and to concentrate on improving the fleet, our expertise, and the utilization of our running rights which cover Alberta, British Columbia, Yukon and the Northwest Territories.

Sales from this company are showing improvement and the operating losses of prior years have been substantially cut. It is expected that in the coming fiscal year we will have turned the division into a profit contributor to earnings.

VILLAGE GREEN INNS

The book value of our 50% interest in the Village Green Inns was increased to $765,000 from $165,000 as further explained in note 3 of the financial statements. It was the opinion of management that the value had increased to this amount based on discussions with potential purchasers.

During the year the occupancy rates and the profit position of both hotels continued to improve. A tennis centre, in which we have an investment, was constructed adjacent to the Vernon Inn along with improvements in our own outdoor facilities.

OTHER ASSETS

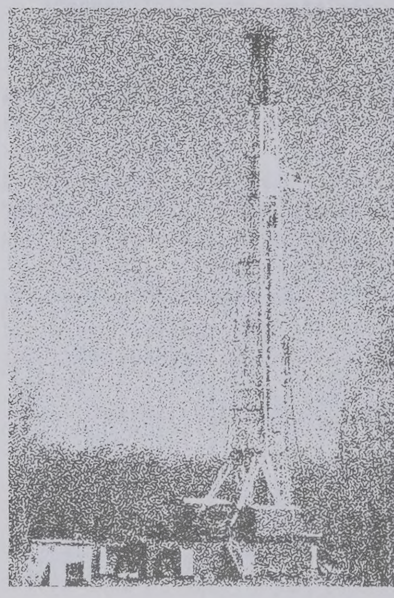
Additional condominium units in Puerto Vallarta, Mexico, were sold during the past fiscal year at a profit. There are currently eight units left to sell and an aggressive sales program has been undertaken. We anticipate that in the near future this asset will be completely liquidated and the funds employed more profitably in Western Canada.

The twenty-five acres of waterfront property on Molokai, Hawaii, in which the Company has a 25% interest, has not been sold even though an aggressive attempt was made to dispose of this property. Continued effort will be made.

The Company's 50% interest in Resoursex Ltd. was disposed of subsequent to year end. We and our partner traded our shares for equity in a new mining development company. It is expected that this new company, which has cash resources and other properties, will pursue an expanded program of exploration and development and that as a result we will eventually be able to liquidate our new position through this company. In the meantime, we are relieved of all management and continuing costs.

REVIEW OF NEW OPERATIONS

ARGUS DRILLING DIVISION



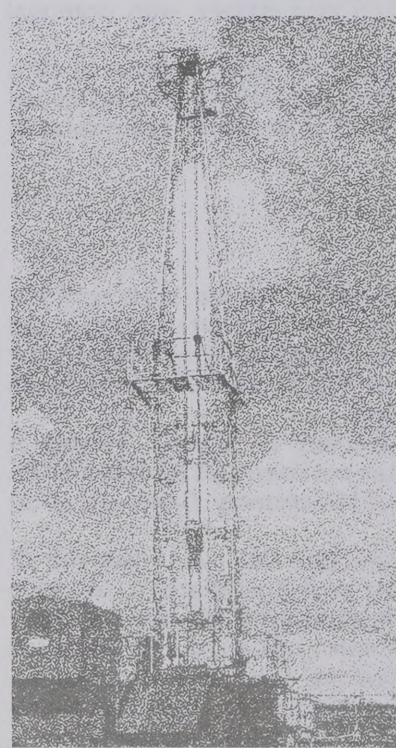
Argus Drilling, which commenced operations more than ten years ago, has over 90 employees, and operates six oilwell drilling rigs in the following depth ranges:

3 - up to 6,000 feet
2 - up to 7,000 feet
1 - up to 12,000 feet

The rigs work principally in central Alberta, although in the winter several move to the north-west Alberta and north-east British Columbia drilling areas. For the year end September 30, 1978, 83 wells were drilled. All rigs are currently contracted, with two rigs on one year contracts. For the fiscal year ended September 30, 1978, the division exceeded its profit budget and a slight improvement is anticipated in this year due to a strong demand for drilling rigs.

A recent appraisal of the assets was conducted and a value of approximately $8,800,000 was placed on the equipment.

WHITCO DRILLING DIVISION



Whitco Drilling, which commenced operations more than five years ago and has over 55 employees, operates four trailer-type drilling rigs with a depth range of up to 3,000 feet. A new rig, costing slightly more than $1 million, with a depth range of up to 4,000 feet, was delivered in January 1979. This new rig will be operated on a three year fixed-term contract.

The wells drilled by the Whitco Division are much shallower than those drilled by the Argus Division, averaging two to three days to complete. For the year ended 30th September, 1978, the division completed 351 wells.

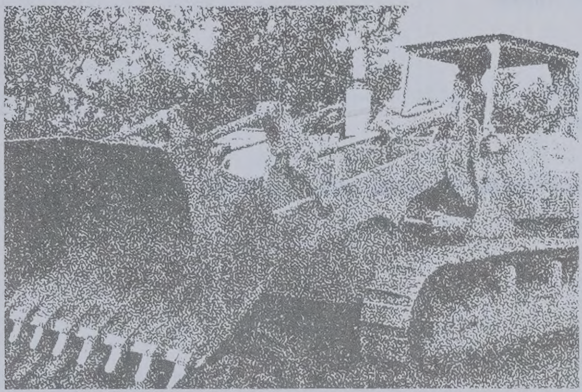
During the summer and fall the rigs work principally in south-east Alberta and move to north-west Alberta for winter operations. It is anticipated that the demand for these rigs will continue through the 78-79 fiscal year.

The division's four existing rigs have an appraised value of approximately $3,500,000.

LARSEN OILFIELD SERVICES (1978) LTD.

The Company owns 80% of this company, an oilfield construction service and construction company, which is located in the Camrose area of Alberta. The company, which was acquired in the spring of 1978, owns seven crawler tractors and five motor graders.

At the present time, the company is relatively small. It is the intention to slowly expand the fleet of equipment, as the opportunities become available, and to move into new geographical areas.



ROSTEL FABRICATING INDUSTRIES LTD.

Taro Industries Limited owns 50% of this Company – an oilfield repair and fabricating plant located in Calgary. Last year, during its first complete year of operation, the company was moved into a new plant, new machine tool equipment was purchased, and the staff was increased from six to approximately 35 people. Even with all the changes, the Company exceeded its profit budget for the fiscal year ended September 30, 1978. Currently, the company is principally engaged in the machining and repair of oilfield tubular products, the fabricating of steel buildings, and the fabricating of mud tank systems.

The growth prospects for this company are excellent and it is our intention to continue the expansion, although at a reduced rate, to keep up with the market demand.

TARO INDUSTRIES LIMITED AND SUBSIDIARY COMPANIES
(Formerly Athabasca Columbia Resources Ltd.)

CONSOLIDATED BALANCE SHEET

AS AT SEPTEMBER 30, 1978 (Note 1)

ASSETS

Current	
Cash	$ 542,000
Receivables	3,582,000
Work-in-progress	201,000
Prepaid expenses	44,000
Condominiums held for resale	237,000
	4,606,000
Investments (Notes 3 and 4)	1,630,000
Fixed assets (Notes 3 and 5)	4,744,000
Other assets	
Excess cost of investment over net book value (Note 3)	960,000
Organization costs (Note 3)	185,000
	$12,125,000

LIABILITIES

Current	
Bank operating loans (Note 6)	$ 460,000
Accounts payable	2,834,000
Income taxes payable	690,000
Deferred income taxes	27,000
Current portion of term debt	950,000
	4,961,000
Term debt (Note 6)	2,568,000
Deferred income taxes	951,000

SHAREHOLDERS' EQUITY

Share capital (Notes 3 and 7)	
Authorized	
6,000,000 common shares with no par value	
30,000 8% cumulative convertible redeemable first preferred shares of $100 par value	
Issued	
3,330,151 common shares and 15,250 first preferred shares Series "A"	1,286,000
Retained earnings (Note 3)	2,359,000
	3,645,000
	$12,125,000

Signed on behalf of the Board:

Director

Director

TARO INDUSTRIES LIMITED AND SUBSIDIARY COMPANIES
(Formerly Athabasca Columbia Resources Ltd.)

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1978

Revenue	
Oilfield services	$9,773,000
Other	29,000
	9,802,000
Costs and expenses	
Operating costs	6,486,000
Administration	1,263,000
Interest	
Term debt	158,000
Other	34,000
Depreciation	377,000
Amortization	16,000
	8,334,000
Net income before income taxes and undernoted items	1,468,000
Provision for income taxes	
Current	476,000
Deferred	298,000
	774,000
Net income before undernoted items	694,000
Equity income of affiliated companies	94,000
Write-off of excess cost incurred in purchase of minority interests in subsidiary companies	(48,000)
Net income for the period	740,000
Retained earnings at beginning of period (Note 3)	1,619,000
Retained earnings at end of period	$2,359,000

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1978

Source of funds	
From operations	
Net income for the period	$ 740,000
Items not requiring a current outlay of funds	
Equity income of affiliated companies	(94,000)
Depreciation and amortization	393,000
Deferred income taxes	271,000
	1,310,000
Increase in term debt less current portion	561,000
Proceeds from disposals of fixed assets	82,000
Issue of share capital	
Arising from business combination (Note 3)	1,275,000
Other	10,000
	3,238,000
Application of funds	
Acquisition of net assets arising on business combination, being $1,275,000 plus $335,000 by way of working capital deficiency assumed (Note 3)	1,610,000
Increase in investments	24,000
Repayment of term debt	426,000
Purchase of fixed assets	1,488,000
Other	10,000
	3,558,000
Decrease in working capital	(320,000)
Working capital (deficiency) at beginning of period	(35,000)
Working capital (deficiency) at end of period	$ (355,000)

AUDITORS' REPORT

The Shareholders
Taro Industries Limited
(Formerly Athabasca Columbia Resources Ltd.)

We have examined the consolidated balance sheet of Taro Industries Limited (formerly Athabasca Columbia Resources Ltd.) as at September 30, 1978 and the consolidated statements of income and retained earnings and changes in financial position for the nine month period then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at September 30, 1978 and the results of its operations and the changes in its financial position for the nine month period then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding period.

Calgary, Alberta
January 22, 1979

Touche Ross & Co
Chartered Accountants

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 1978

1. REORGANIZATION AND CHANGE OF NAME

At the Annual General Meeting of Athabasca Columbia Resources Ltd. held on August 17, 1978, shareholder approval was obtained to change the year end from December 31, to September 30.

At a Special General Meeting held on September 28, 1978, approval was obtained to amalgamate the Company with two of its subsidiary companies, Taro Oilfield Industries Limited and Kenai Trucking (1969) Ltd., and to designate the name of the continuing corporation as Taro Industries Limited. A certificate of statutory amalgamation was subsequently received from the Registrar of Companies for Alberta.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Principles of consolidation

These financial statements include the accounts of the Company and the following subsidiary companies which have been consolidated in the manner disclosed in Note 3:

	Percentage Interest
Kenai Trucking (1969) Ltd.	100.0
Scandia Trucking Ltd.	100.0
Taro Oilfield Industries Limited	100.0
Tarsa Investments Ltd.	100.0
Larsen Oilfield Services (1978) Ltd.	80.0

These financial statements also include the equity of the following companies in which the Company has a 50% interest (equity consisting of cost of investment, advances and share of results of operations since acquisition):

Village Green Services Ltd.
Village Green Inns Ltd.
Village Green Inns (Vernon) Ltd.
Rostel Fabricating Industries Ltd.

The Company's 50% interests in Resoursex Ltd. and Kaunakakai Resources Inc. are recorded at cost less write-downs to net realizable value. The 50% interest in Arctic Motor Freight Inc. has been completely written off for accounting purposes.

b) Condominiums held for resale and work-in-progress

These assets are valued at the lower of cost and net realizable value. Work-in-progress is accounted for by the percentage of completion method of accounting.

c) Depreciation

Depreciation is recorded in the accounts using the straight-line method at the following rates which will reduce the assets to estimated residual values:

Drilling rigs and related equipment	10 - 12½%
Drillstring, pipe and collars	14 - 17%
Trucks, trailers and tractors	10 - 15%
Automotive equipment	23 - 35%
Furniture and other equipment	6 - 10%

d) Deferred income taxes

Income taxes are recorded using the tax allocation method.

e) Excess cost of investment over net book value and organization costs:

These costs are being amortized at various periods of up to forty years.

3. BUSINESS COMBINATION PRESENTATION

a) Consolidation

Pursuant to an Agreement dated June 14, 1978, effective June 30, 1978 for financial purposes, Athabasca Columbia Resources Ltd. ("Athabasca") issued 2,050,000 common shares and 15,250 Series "A" first preferred shares in exchange for all of the outstanding share capital of Taro Oilfield Industries Limited ("Taro"), a private Canadian company.

As a result of this share issue transaction control of the combined companies passed to the former shareholders of Taro as a group. This business combination situation is referred to as a "reverse take-over". Although legally Athabasca would be regarded as the parent or continuing company, recommended policy established by the Canadian Institute of Chartered Accountants requires that, for accounting purposes, Taro be identified as the acquirer and that Athabasca be treated as the acquired company.

As a result of the reverse take-over method of accounting, control of the assets and business of Athabasca is deemed to have been acquired by Taro in consideration for the issue of share capital. The consideration amount has been designated at $1,275,000 representing the deemed value of the outstanding common shares of Athabasca immediately prior to the business combination.

Being the acquiring company, the net assets of Taro are included in the balance sheet at previous book value; net assets of Athabasca have been adjusted to reflect the acquisition consideration. The results of operations for Taro have been included in these financial statements for the nine month period ended September 30; and the results of operations of Athabasca have been included for the three month period from the effective date of the business combination.

The acquisition is summarized as follows:

Assets and liabilities of Athabasca at June 30, 1978.

Current assets	$ 823,000
Current liabilities	1,158,000
Working capital deficiency	(335,000)
Investments	707,000
Fixed assets	666,000
Organization costs	35,000
	1,073,000
Term debt	(879,000)
Net book value	194,000
Ascribed purchase value of Athabasca	1,275,000
Excess cost of investment in Athabasca over net book value at date of acquisition	$1,081,000
Net book value of Athabasca at June 30, 1978 was represented by:	
Issued share capital	$2,940,000
Deficit, January 1, 1978	(2,447,000)
	493,000
Net loss to June 30, 1978	(299,000)
	$ 194,000

This excess cost has been allocated to various assets presented on the balance sheet as follows:

Investments	$ 600,000
Fixed assets	100,000
Organization costs	150,000
Excess cost of investment over net book value of assets acquired	231,000
	$1,081,000

Consolidation adjustments were required to the equity accounts of Athabasca at the effective date to reflect the acquisition by Taro. The previous $2,447,000 deficit accumulated by Athabasca has been revised to present the opening retained earnings account of Taro at January 1, 1978, in the amount of $1,619,000. The share capital account otherwise outstanding for corporate purposes has been calculated as follows:

	Share Capital
Balance January 1, 1978	$2,940,000
Value of shares of Athabasca issued in exchange for share capital of Taro	
Common	2,050,000
Preferred	1,525,000
	6,515,000
Adjusted for	
Balance of Taro share capital account as at January 1, 1978	(1,000)
Ascribed value of share consideration deemed issued by Taro	(1,275,000)
Decrease in share capital (Note 7)	$5,239,000

b) Comparative financial statements

Comparative figures have not been presented as management considers that the basis of financial presentation for the current period differs significantly from the prior period. This arises as the result of the method required in accounting for the business combination of Taro and Athabasca, and because the year-end of the new consolidated group of companies has been changed to the 30th of September.

4. INVESTMENTS

Investments comprise:

Equity in affiliated companies	
Village Green Hotel Companies (including $600,000 allocated as set out in Note 3)	$ 765,000
Rostel Fabricating Industries Ltd.	115,000
	880,000
Investments at lower of cost or net realizable value	
Kaunakakai Resources Inc.	543,000
Western Rock Bit Company Limited	152,000
Resoursex Ltd.	43,000
Other	12,000
	$1,630,000

5. FIXED ASSETS

Fixed assets stated at cost comprise:

Drilling rigs and related equipment	$3,416,000
Drillstring, pipe and collars	1,125,000
Trucks, trailers and tractors	1,642,000
Automotive equipment	243,000
Other equipment and furniture	263,000
Permits (including $100,000 allocated as set out in Note 3)	132,000
	6,821,000
Less accumulated depreciation	2,077,000
	$4,744,000

6. TERM DEBT

Term debt comprises:

Bank term loans	$2,712,000
Unsecured notes payable	666,000
Convertible note payable	100,000
Finance contracts - secured	40,000
	3,518,000
Less current portion	950,000
	$2,568,000

Bank term loans bear interest at rates between 1¼% and 1¾% above prime rate, and are repayable in monthly installments of $57,800. Bank term and operating loans are secured by general assignments of accounts receivable, demand debentures carrying a first fixed charge over drilling rigs, related equipment and certain tractors, a first floating charge over all other assets and a guarantee bond and postponement of claims from a director.

Unsecured notes payable bear interest at rates between 10% and bank prime plus 1% per annum and are repayable in annual installments of:

1979 - $170,750	1982 - $ 77,000
1980 - $204,500	1983 - $ 73,000
1981 - $140,750	

The convertible note payable bears interest at 8% and is convertible into 1,000 first preferred shares at the holders' option at any time before March 15,1979 whereupon the Company must repay the note.

7. SHARE CAPITAL

In order to facilitate the business combination with Taro as outlined in Note 3 the authorized common shares of Athabasca were increased from 3,000,000 to 6,000,000 with a reduction of the maximum consideration receivable for these shares from $30,000,000 to $27,000,000. In addition, 30,000 8% cumulative convertible redeemable first preferred shares with a par value of $100 each were authorized.

Details of the issued share capital are as follows:

	Number	Amount
Common shares		
Balance at January 1, 1978	1,275,151	$2,940,000
Issued in exchange for shares of Taro	2,050,000	2,050,000
Exercise of outstanding share option	5,000	10,000
Balance at September 30, 1978	3,330,151	5,000,000
First preferred shares - Series "A"		
Issued in exchange for shares of Taro	15,000	1,500,000
Issued for brokers' fee	250	25,000
Balance at September 30, 1978	15,250	1,525,000
Aggregate		6,525,000
Adjustment required for business combination accounting (Note 3)		(5,239,000)
Per balance sheet at September 30, 1978		$1,286,000

The first preferred share dividends are payable semi-annually commencing January 1, 1979. The shares are convertible at the holders' option at any time after three years from the date of issue for 50 common shares for every first preferred share held or are redeemable at the Company's option after five years from the date of issue at par.

The Company has reserved 160,000 common shares for future issue under an Employee Stock Option Plan.

8. EARNINGS PER SHARE

Earnings per share for the nine month period have been calculated on the weighted average number of common shares outstanding during the period. The number of shares deemed to be outstanding for the period takes into account the reverse take-over rules for business combinations as described in Note 3.

Basic earnings per common share	$0.26
Fully diluted earnings per common share	$0.23

9. COMMITMENT AND CONTINGENT LIABILITIES

The Company has jointly guaranteed indebtedness of affiliated companies amounting to $1,040,000. Reimbursing guarantees are held for one-half of this amount. The Company has also fully guaranteed indebtedness of affiliates to third parties amounting to $600,000.

The Company is committed to the construction of a new drilling rig which is estimated will cost approximately $1,050,000. The purchase is to be financed by an additional loan from the Company's banker and by an advance drilling payment. As at September 30, 1978 the Company had expended approximately $274,000 on this rig, which was obtained from current working capital.

Outstanding lease commitments for office premises total $165,000 over the next thirty months.

10. REMUNERATION OF OFFICERS AND DIRECTORS

During the nine month period there were fourteen directors and five officers all of whom were also directors. Directors' and officers' remuneration for the period amounted to $26,833 and $29,167 respectively.